

AR29

BRAZILIAN
LIGHT
AND POWER
COMPANY
LIMITED

annual report 1966



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BRAZILIAN LIGHT AND POWER COMPANY LIMITED

25 KING STREET WEST, TORONTO 1, CANADA

Comparative Summary

	1966	1965	1964
	\$ millions	\$ millions	\$ millions
Plant, property and equipment, at cost	828.1	790.7*	1,006.7
Long-term debt	72.0	74.9*	88.4
Shareholders' equity	522.2	500.1	506.7
Net income (loss)	36.4	19.5	(.4)
Ordinary shares outstanding (average)	17,304,233	17,294,671	17,294,671
Book value per ordinary share—December 31	\$30.10	\$28.89	\$29.27
Net income (loss) per ordinary share	\$ 2.10	\$ 1.13	(\$.03)
Dividends (\$ Can.) declared per ordinary share	\$.90	\$.45	—
Kilowatt-hours sold—millions	12,797	11,641	11,241

*Adjusted to give effect to sale of telephone utility.

Annual Meeting

The Annual Meeting of the Shareholders will be held at the Royal York Hotel, Toronto on Tuesday, 20th June, 1967, at 11 o'clock in the morning.

Transfer Agents

National Trust Company, Limited Toronto, Montreal and Vancouver
First National City Bank New York

Registrars

Canadian Imperial Bank of Commerce Toronto, Montreal and Vancouver
Bankers Trust Company New York

Associated Companies

Canadian-Brazilian Services Limited Toronto and London
American-Brazilian Suppliers, Inc. New York

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BRAZILIAN LIGHT AND POWER COMPANY LIMITED

DIRECTORS

HERMANN J. ABS	Director, Deutsche Bank AG	Frankfurt on Main
PIERRE ANSIAUX	Member of the Bar of the Supreme Court of Belgium	Brussels
DONALD R. ATKIN†	Vice-President, Morgan Guaranty Trust Company of New York	New York
THIERRY BARBEY	Managing Partner, Lombard, Odier & Cie.	Geneva
HENRY BORDEN*	Chairman, British Newfoundland Corporation Limited	Toronto
THE LORD BRIDGES	London
E. G. BURTON*	Chairman and Chief Executive Officer, Simpsons, Limited	Toronto
WALKER L. CISLER	Chairman, The Detroit Edison Company	Detroit
JOHN F. GALLAGHER	Vice-President, International Operations, Sears, Roebuck and Co.	Chicago
ANTONIO GALLOTTI	VICE-PRESIDENT	Rio de Janeiro
J. GRANT GLASSCO*	PRESIDENT	Toronto
G. BLAIR GORDON	Director, Dominion Textile Company Limited	Montreal
J. PETER GRACE	President, W. R. Grace & Co.	New York
LEWIS B. HARDER*	Chairman, International Mining Corporation	New York
W. C. HARRIS*	Chairman, Harris & Partners Limited	Toronto
R. L. HEARN*	Toronto
PAUL E. MANHEIM*	Partner, Lehman Brothers	New York
BEVERLEY MATTHEWS*	Partner, McCarthy & McCarthy	Toronto
K. H. MCCRIMMON	Rio de Janeiro
NEIL J. MCKINNON*	Chairman, Canadian Imperial Bank of Commerce	Toronto
JOHN G. PHILLIMORE	Director, Baring Brothers & Co. Limited	London
LAZARUS PHILLIPS	Partner, Phillips, Vineberg, Goodman, Phillips & Rothman	Montreal

HONORARY DIRECTORS

E. C. FOX	Toronto	W. A. G. KELLEY	Toronto
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† Deceased * Member of the Executive Committee

OFFICERS

J. GRANT GLASSCO
President

E. G. BURTON
Vice-President

ANTONIO GALLOTTI
Vice-President

J. H. A'COURT
Vice-President, Finance

D. M. COOLICAN
Vice-President, Administration

L. A. ALLEN
Secretary

A. R. G. AMENT
Treasurer

R. R. SUTHERLAND
Comptroller

Highlights

The Company achieved a new record with operating revenues of \$238,383,000 on its utility operations in Brazil. Energy delivered to its 2,403,000 electric customers in Rio de Janeiro and São Paulo and contiguous territory represented approximately 50% of all electric energy consumed in Brazil.

The Company's earnings were further restored in 1966 with net income totalling \$36,379,000. Except for the record of \$42,170,000 earned in 1952, this represents the highest net income in the Company's history. Throughout the year rates for electric energy were maintained on a fair basis. Withdrawal from the telephone business at the beginning of the year and interest on the unpaid portion of the selling price of telephone assets also contributed to the increase in earnings.

Total dividends for the year were \$14,480,000. In June the quarterly dividend on ordinary shares was increased from 15¢ to 25¢, marking a return to the annual rate of \$1.00 (Can.) which was paid regularly for many years prior to 1953.

The year 1966 saw continued progress by the Government of Brazil in its efforts to stabilize the economy and bring about a resumption of growth and development. A favourable balance of payments resulted in further improvement in Brazil's exchange reserves.

The Company's program for the expansion and betterment of its electric distribution facilities gained momentum in 1966. Capital expenditures during the year totalled \$43,019,000. They are expected to approximate the equivalent of \$72 million in 1967, the largest capital outlay in any year since 1952.

MANAGEMENT COMPANY IN BRAZIL

COMPANHIA BRASILEIRA ADMINISTRADORA DE SERVIÇOS TÉCNICOS (COBAST)

Directors

ANTONIO GALLOTTI
President

J. J. MARQUES FILHO
Vice-President

MALCOLM H. MACKENZIE
Vice-President, Engineering

J. S. MONTEIRO
Vice-President, Public Relations

R. P. C. DE ANDRADE

ARNALDO DA COSTA FARO—*Director of Personnel and Administration*

JOSÉ RUBEM FONSECA—*Director, Publicity and Information*

JOSÉ SAMPAIO DE FREITAS—*Director of Operations*

A. H. LEAL—*Technical Director*

K. H. MCCRIMMON

CARLOS REIS FILHO

MALVINO REIS NETTO—*Commercial Director*

A. L. DA SILVEIRA—*Director of Gas Services*

A. A. DE A. SODRÉ

ODILON E. A. SOUZA

R. E. SPENCE—*Director, Finance*

PRINCIPAL SUBSIDIARY COMPANIES IN BRAZIL

SÃO PAULO LIGHT S.A.—SERVIÇOS DE ELETRICIDADE

SÃO PAULO—SERVIÇOS DE ELETRICIDADE S.A.

COMPANHIA DE ELETRICIDADE SÃO PAULO E RIO

A. G. BURNETT, *Acting General Manager*

RIO LIGHT S.A.—SERVIÇOS DE ELETRICIDADE

COMPANHIA FLUMINENSE DE ENERGIA HIDROELÉTRICA

ANTONIO DE ALMEIDA NEVES, *General Manager*

COMPANHIA PAULISTA DE SERVIÇOS DE GÁS

CIDADE DE SANTOS—SERVIÇOS DE ELETRICIDADE E GÁS S.A.

R. S. McNEILL, *General Manager*

SOCIEDADE ANÔNIMA DO GÁS DO RIO DE JANEIRO

CLAUDIO FERREIRA DE MORAES, *General Manager*

BANCO DE DESENVOLVIMENTO E INVESTIMENTO BRASCAN S.A.

EMPRESA TÉCNICA DE ORGANIZAÇÃO E PARTICIPAÇÕES S.A.

ORGANIZAÇÃO E EMPREENDIMENTOS GERAIS S.A.

W. A. PRENDERGAST, JR., *President*

As of March, 1967

SENIOR OFFICERS IN BRAZIL:
seated, left to right,
J. J. Marques Filho, Antonio Gallotti,
Antonio de Almeida Neves;
standing, left to right,
J. S. Monteiro, José Sampaio de Freitas.



Directors' Report

NET INCOME

Net income for the year was \$36,379,000 representing a considerable improvement over the \$19,480,000 income of 1965. The 1966 earnings are equivalent to \$2.10 per ordinary share, compared with \$1.13 in 1965.

The increase in net income is mainly attributable to three factors: a greater volume of sales of electric energy at fair rates, an increase in investment income, and interest received on the unpaid balance of the sale price of our telephone utility. While the Company suffered a net loss of \$944,000 on telephone operations in 1965, interest received

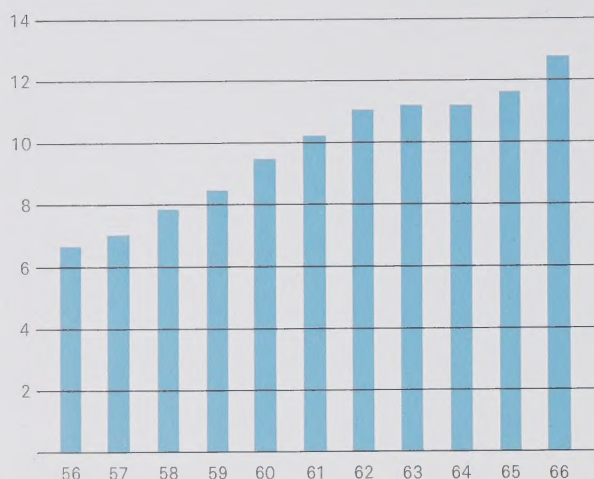
in 1966 in respect of the sale of the telephone assets amounted to \$5,552,000.

DIVIDENDS

The Company declared regular dividends of \$6.00 (Can.) per share on the preference shares. On the ordinary shares a quarterly dividend of 15¢ was declared in March, with further declarations of 25¢ per share in June, September and December, for a total of 90¢ for the year, compared with total dividends per ordinary share of 45¢ in 1965. Total dividends were \$14,480,000, compared with \$7,252,000 in 1965 and \$22,000 in 1964.

Electric Energy Sold 1956-1966

BILLIONS OF KILOWATT-HOURS
1 BILLION = 1,000 MILLION



POLITICAL AND ECONOMIC DEVELOPMENTS

The term of office of the government of President Castello Branco expired on March 15, 1967, bringing to a close one of the most productive periods of government in Brazil's history. Marshal Costa e Silva, elected by Congress in October 1966, succeeded to the presidency and has formed a cabinet of the highest calibre. The new Government is committed to policies which should lead to a further surge of development. The containment of inflation continues to be a primary goal.

In 1966 the Brazilian economy made substantial gains. Because the Company's fortunes vary directly with those of Brazil, the operations of 1966 can only be reviewed realistically against the background of changing conditions in that country. A review of the more important of these developments is accordingly included in this Report, starting on page 9.

ELECTRIC OPERATIONS

Following the sale of its telephone properties, the Company's business became preponderantly its operations in the electrical field. In terms of both investment in plant and operating revenues the electric business represents more than 90% of the total; in terms of net operating income it accounts for nearly 100%, because gas operations are producing no significant profit.

The Company's sales of electric energy in 1966 represented new records both in volume and revenue. Total sales of 12,797 million kilowatt-hours were approximately 10% higher than the 1965 total, while operating revenues increased from \$165,075,000 in 1965 to \$218,942,000. Reflecting the program of expansion of distribution facilities initiated in 1965, the number of customers served rose to 2,403,000 from 2,285,000 in 1965.

River-flow conditions in 1966 were favourable and water resources were sufficient to permit optimum utilization of the Company's hydro-electric generating facilities. This, together with increased availability of hydro-electric energy supplied to our system by state-owned plants (see map below), made

PRINCIPAL EXISTING AND PROJECTED SOURCES OF POWER FROM OTHER COMPANIES



possible the operation of the Company's oil-fired thermal plant at Piratininga at a lower rate. The saving in expensive fuel thus effected was a benefit to customers.

Company purchases of energy from outside sources during 1966 amounted to 4,150 million kilowatt-hours, equivalent to 32% of the Company's total energy sales. Purchases in 1965 were equivalent to 28% of energy sales in that year. Increases in future years in the proportion of total demand served by purchased power can be expected, as demand continues to increase without enlargement of the Company's generating resources.

Throughout 1966, electric rates established by the regulatory authority conformed to the rate system under which, in March 1965, the Company received the first meaningful rate adjustment for many years. Adjustments of rates, as provided for under this system, were made from time to time to compensate for various types of cost increases which reflected mainly the continuing change in the internal value of the national currency.

The rates laid down are designed to yield remuneration of 10% on the investment in the service. For several years government commissions have been working to verify the rate-base as defined by law. Their task is not yet finished and the rates allowed the Company since the inauguration of the "service at cost" system are based on provisional figures. The Company's remuneration is thus subject to adjustment when the rate base has been officially determined.

GAS OPERATIONS

Sales of gas in 1966 totalled 11,197 million cubic feet, slightly down from the 11,453 million cubic feet sold in 1965. Operations in 1966 were near the break-even point. The contemplated conversion of production facilities to the use of a petroleum-type feedstock has not been undertaken in the absence of agreement with municipal



Maintenance crew servicing street lights in Rio de Janeiro.

authorities in Rio de Janeiro and São Paulo on new concession contracts.

A decision was made late in the year to withdraw from the manufacture of gas in Santos in September 1967. An explosion in January 1967, which heavily damaged our installations, forced discontinuance of the service from that date. The estimated loss on withdrawal from this unprofitable enterprise, including the write-off of the net book value of the plant and severance payments to employees, has been provided for through a charge of \$2,885,000 to 1966 income.

CAPITAL EXPENDITURES

Capital expenditures during 1966 amounted to \$43,019,000 compared with \$26,947,000 in 1965 and \$14,746,000 in 1964.

The program of improvement and extension of electric distribution facilities inaugurated in 1965

called for the expenditure of \$122 million over a three-year period. Of this, \$40 million is being financed through a loan from the United States Agency for International Development. Expenditures made and commitments incurred under this program up to December 31, 1966, totalled \$71,896,000.

No expenditures for additional generating facilities are contemplated by the Company. Additions to generating capacity to serve the future needs of our service areas will, under government policy, be supplied by the continuing development of stations owned by public authority and interconnected with our systems. (A map of our systems appears on the inside back cover.)

INVESTMENTS

Income from investments during the year totalled \$5,204,000 compared with \$2,761,000 in 1965 and \$1,780,000 in 1964. Higher levels of liquid reserves and exceptionally high rates of interest in 1966 contributed to this improvement.

Minority participations in several agricultural and industrial enterprises in Brazil have been acquired and, with commitments at December 31, 1966, represented an aggregate cruzeiro investment equivalent to approximately \$7 million. Additional commitments undertaken in 1967 total \$2,700,000. The obligation assumed by the Company to re-invest in Brazil a proportion of the sale price of the telephone utility has been fully met to date.

ACCIDENTS

In January 1967 the Company suffered two major accidents. Reference has been made to the gas explosion in Santos which resulted in considerable property damage, but, fortunately, no loss of life. On January 22 unprecedented torrential rains and landslides occurred in the area of the Company's principal generating stations serving the Rio de Janeiro system. The resulting flood inundated the Nilo Peçanha station, the largest generating plant in this group, and its machinery suffered extensive

damage. Due to the lengthy period required to clean and dry out this plant, 1967 energy sales may fall below forecasts by as much as 5%, but should still exceed 1966 sales by a considerable margin.

EMPLOYEES

At the end of 1966 the Company and its subsidiaries had 25,138 employees of whom only 72 were resident outside Brazil. There were no work stoppages, and wages in Brazil were increased by 31% in January 1966 and again by 26% in January 1967.

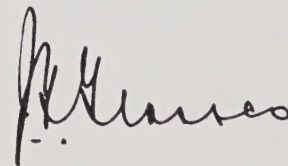
The Company has embarked upon a comprehensive training plan for its technical personnel. As part of this plan, groups of Brazilian engineers and technicians will gain operating experience in North America, through the co-operation of Canadian and United States electric utilities.

The continuous improvement in the results achieved over the past three years is attributable in no small measure to the loyalty and resourcefulness of management and working forces in Brazil. The unfortunate accidents in January 1967, referred to above, created strains and challenges to which the response of personnel at all levels was in the finest tradition of utility service.

DIRECTORS

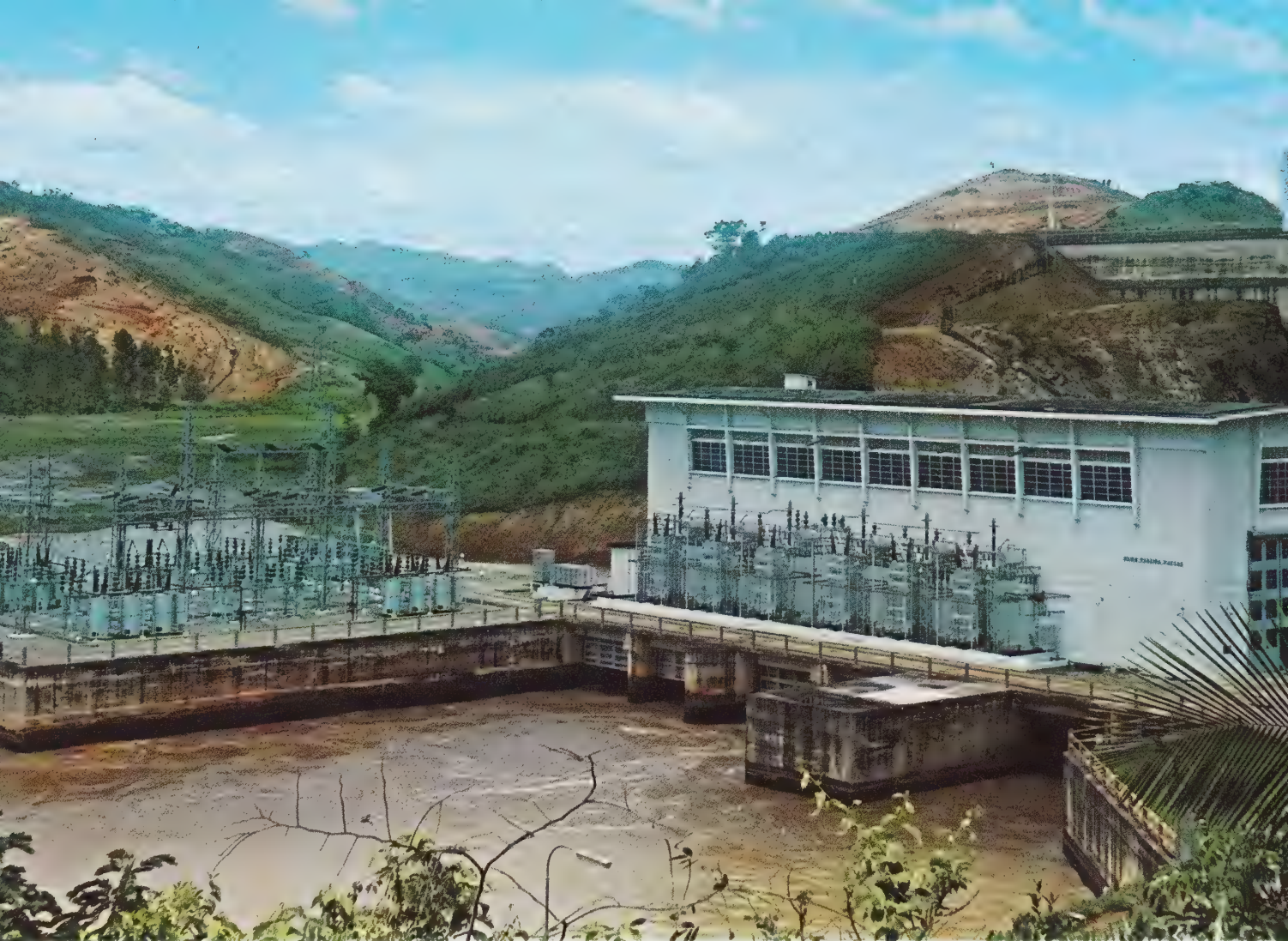
In February 1967 the Board suffered a grievous loss in the sudden death of Mr. Donald R. Atkin of New York. Elected a Director in June 1965, Mr. Atkin had become an active and valued member of the Board. To fill the vacancy thus created, Mr. J. H. A'Court, Vice-President—Finance, was appointed a Director by the Board.

On behalf of the Board of Directors,



April 4, 1967

President



Pereira Passos powerhouse, a Rio Light plant having a capacity of 93,500 kilowatts, located downstream from the Fontes and Nilo Peçanha plants.

Economic Review

INTERNATIONAL PRICE LEVEL

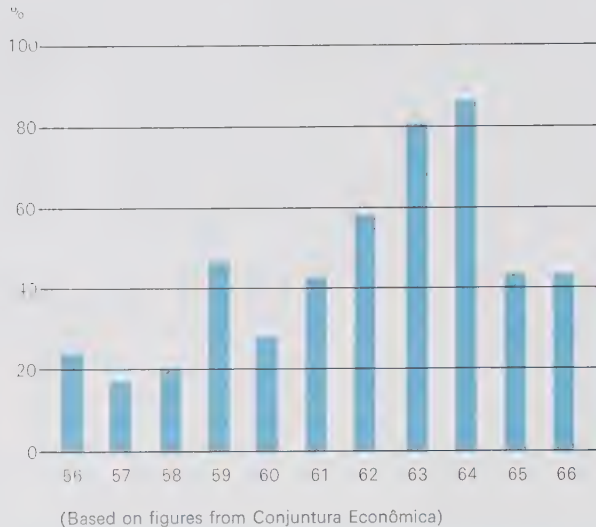
Brazil's economy was further strengthened in 1966 as the federal Government's program of stabilization and development was consolidated and extended. Strict control over government expenditure was maintained and the Treasury deficit, held within the Cr\$500,000 million budgeted, was largely financed by non-inflationary means. The federal budget for 1967 is in balance.

Despite the restraints on government spending and the application of fiscal and monetary controls, the cost of living increased in 1966 by approximately 44%. The chart on page 10 shows the course of increases in living costs over the past eleven years. The increase for 1966 was greater than had been expected, but the Government, over the past three years, has applied disinflationary measures with restraint in order to avoid undue social and economic hardship.

Brazil—Cost of Living 1956-1966

ANNUAL PERCENTAGE INCREASE

RIO DE JANEIRO, SÃO PAULO AVERAGES



The cost-of-living index for the State of Guanabara, taken alone, increased by 41% in 1966; this compares with increases of 45% in 1965 and 86% in 1964. The wholesale price index for Brazil increased in 1966 by 41% compared with increases of 27% in 1965 and 93% in 1964.

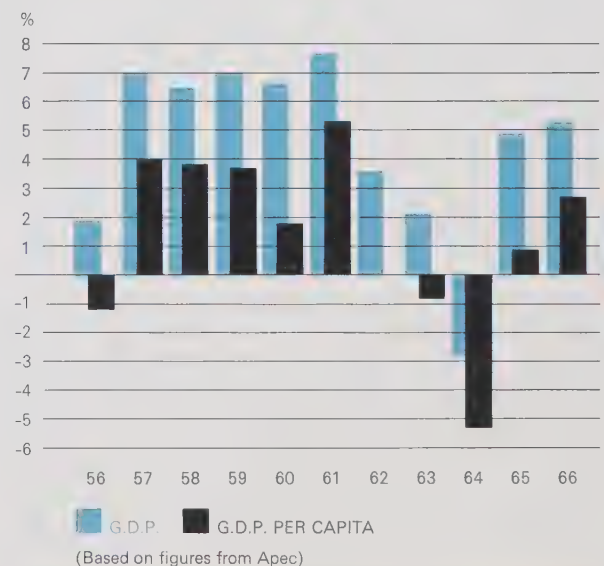
The total money supply (currency in circulation plus bank deposits) increased by 20% in 1966 compared with 75% in 1965, and an austere salary policy restrained wage and salary increases. The minimum wage, which was increased on March 1, 1967, by 25%, had in the three previous years been raised by 27% (1966), 57% (1965), and 100% (1964). The wage increase granted to the Company's employees as of January 1, 1967, was 26%; this had been preceded by increases of 31% (1966), 50% (1965), and 100% (1964).

The chart below shows the annual changes in Brazil's Gross Domestic Product for the past eleven years. It will be seen that while in 1964 the GDP declined from the level of the previous year, growth was resumed in 1965 and continued in 1966 at a rate of approximately 5% in real terms. Industrial production in 1966 increased by 7%, showing a marked recovery from the marginal increase of the previous year. Agricultural output on the other hand decreased in 1966 owing to unfavourable climatic conditions.

Substantial amounts were expended on development in 1966, particularly in the public sector. Government expenditures in this field are estimated at the equivalent of \$1,240 million, with electricity, transportation and housing receiving

Brazil—Gross Domestic Product 1956-1966

ANNUAL PERCENTAGE INCREASE/DECREASE



Brazil—Principal Exports

	VALUE EXPRESSED IN MILLIONS OF DOLLARS				
	1966	1965	1964	1963	1962
Coffee	764	707	760	748	643
Cotton	111	96	108	114	112
Manufactured Goods	104	110	70	37	34
Iron Ore	100	103	81	70	68
Sugar	80	57	33	72	40
Pinewood	56	52	46	35	36
Cocoa Beans	51	28	35	35	24
Manganese Ore	27	29	21	25	28
TOTAL ALL EXPORTS	1,741	1,595	1,430	1,407	1,214

(Based on figures supplied by Brazilian Ministry of Finance)

the major portion. In addition, the federal Government made direct investments in industry of Cr\$730,000 million (\$332 million) while the National Economic Development Bank approved industrial loans totalling Cr\$531,000 million (\$241 million). External assistance included some \$300 million received from the United States Agency for International Development as well as substantial amounts from international agencies such as the International Bank for Reconstruction and Development and the Inter-American Development Bank.

The development of Brazil's northeast, much of it an area of recurring drought, was continued during the year by SUDENE, a federal Government agency. Basic development projects are being carried out by the Government and, in addition, private industry is being attracted to the area through generous tax incentives. A development organization, similar to the one operating in the northeast, has recently been set up for the Amazon region, a territory of two million square miles rich in forest and mineral resources.

Brazil's automotive industry produced 225,000 units in 1966, an increase of 20% over

1965; in addition, more than 9,000 agricultural tractors were produced. The production of iron ore increased by approximately 5% to reach an estimated 19 million tons in 1966, while the output of steel ingots, totalling approximately 3.8 million tons, increased by 25%. The production of cement, at 6 million tons, was up by 8% over the previous year.

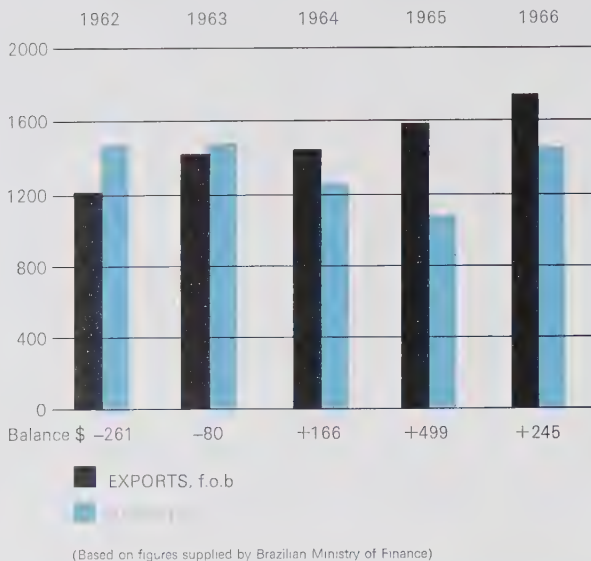
BALANCE OF PAYMENTS AND TRADE

The surplus in Brazil's balance of payments for 1966 amounted to approximately \$150 million, with exchange reserves growing to \$730 million by the year-end.

As a result of balance-of-payments loans in prior years and substantial development financing extended by foreign lenders to both the public and private sectors, Brazil's total foreign debt had increased by the end of 1966 to \$4,870 million. This debt is being serviced currently without difficulty and the capacity of the country's growing economy is more than adequate to handle future carrying charges.

Brazil—Foreign Trade 1962-1966

VALUE EXPRESSED IN MILLIONS OF DOLLARS



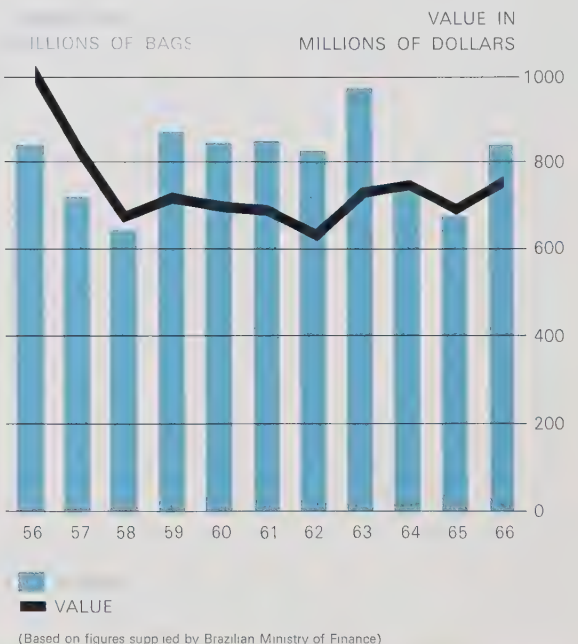
The value of Brazil's foreign trade in 1966, expressed in U.S. dollars, was approximately 20% greater than in 1965, with both exports and imports up in value from the previous year. The chart above shows a favourable trade balance of \$245 million for 1966, and the table of principal exports on page 11 indicates that a considerable part of the increase in exports was the result of greater shipments of coffee. Through the controls established by the International Coffee Agreement, reasonable price stability has been maintained in the face of considerable world over-production of coffee. Brazil, the world's largest producer, has large surplus stocks on hand but is achieving a gradual reduction in coffee output through a program of crop diversification.

Exports of iron ore at 13 million tons were slightly greater than in 1965 but lower prices caused

a reduction in their value. A newly developed iron ore port at Tubarão in the state of Espírito Santo started operating during the year. This is the largest facility of its type in the world and can be expected to contribute to further growth of iron ore exports.

Imports were valued at \$1,496 million, an increase of 36% over 1965. Machinery and equipment accounted for approximately \$350 million (a 40% increase) reflecting the increased level of investment in industry. Imports of crude oil and petroleum products were valued at \$215 million compared with \$207 million in 1965. The demand for refined petroleum products has grown steadily with industrial expansion, consumption in 1966 increasing by 7% over the previous year. Domestic production of crude oil increased by a significant 28%, and totalled 42.5 million barrels in 1966, equivalent to 33% of national requirements.

Brazil—Coffee Exports 1956-1966



Financial Review

The Financial Statements appearing on pages 19 to 23 consolidate the accounts of the Company and all its subsidiary companies in Brazil. As in the past they are expressed in United States dollars, and all dollar figures mentioned in this Report represent American dollars, except where otherwise indicated.

TRANSLATION OF FOREIGN CURRENCIES TO DOLLARS

All operating income (as well as substantial portions of other income and income deductions) originates in Brazilian currency. The basis on which revenues and expenses (and assets and liabilities) were translated from cruzeiros into United States dollars is explained in detail in Note 1 to the Financial Statements which appears on page 24. The translation formula has remained substantially unchanged since the free-exchange market was established in 1953. Under this formula net income generated in cruzeiros was translated into United States dollars by applying a composite exchange rate to cruzeiro revenues (other than interest charged to construction) less cruzeiro expenses (other than depreciation, reversion, and reversion interest). The composite rate was obtained by valuing dollar transfers at the exchange rates at which these were remitted from Brazil in 1966, and valuing the unremitted balance of net income generated in

cruzeiros at the average free-market rate for the year. In the past six years the use of this formula has resulted in the cruzeiro being valued (for earnings purposes) at the following composite rates:

CRUZEIROS PER U.S. DOLLAR

1961	Cr\$188	1964	Cr\$1,264
1962	Cr\$367	1965	Cr\$1,902
1963	Cr\$578	1966	Cr\$2,215

The average free-market rate during 1966 was Cr\$2,218 to the United States dollar. The corresponding rates for 1965 and 1964 were Cr\$1,904 and Cr\$1,293 respectively. As of February 13, 1967, the cruzeiro was devalued by approximately 23% and from that date dollars were bought and sold by authorized dealers at Cr\$2,700 and Cr\$2,715 respectively.

Under the traditional formula, cruzeiro working capital and certain other cruzeiro assets have been translated into United States dollars at the exchange rate prevailing in the free market at the year-end. This course was considered inappropriate at December 31, 1966, in view of the 23% devaluation which occurred in mid-February 1967. The cruzeiro assets in question were therefore valued at Cr\$2,715 to the United States dollar, as described in Note 2 to the Financial Statements. A similar

Comparative Statement of Consolidated Income

	YEAR ENDED DECEMBER 31	1966 (000)	1965 (000)	1964 (000)
Operating revenues		\$238,383	\$183,500	\$117,256
Operating revenue deductions:				
Operating expenses including provision for income taxes		150,097	114,386	91,615
Provision for depreciation		32,414	27,121	12,858
Provision for reversion		15,978	13,896	—
		198,489	155,403	104,473
Operating income		39,894	28,097	12,783
Other income		10,788	3,108	2,324
Net income before income deductions		50,682	31,205	15,107
Income deductions		14,303	11,725*	15,550*
Net income (loss) for year		\$ 36,379	\$ 19,480	(\$ 443)

*Includes net loss of telephone utility.

course was followed at December 31, 1963, in the light of the substantial devaluation of the cruzeiro which took place in February 1964.

A change in the monetary unit, originally provided for by a law of November 1965, was also made effective as of February 13, 1967, when the cruzeiro was replaced by the "new cruzeiro" (equivalent to 1000 old cruzeiros). Unless otherwise stated, references to cruzeiros in this Report, which covers the year 1966, are to old cruzeiros.

SALE OF TELEPHONE UTILITY

At the date of release of the 1965 Annual Report, the contract covering the sale of the Company's telephone utility had been signed but had not taken effect. Shortly thereafter the document was duly registered in Brazil by the Federal Accounting Tribunal, and the contractual arrangement came into force.

The sale price was \$96,315,787 payable in quarterly instalments over a twenty-year period with interest at 6% per annum. The five instalments maturing prior to the date of this report have all been received on their due dates. Independent appraisers appointed under the terms of the contract submitted their report in January 1967, confirming the reasonableness of the price. This transaction is therefore now completed.

Approximately \$65 million of the proceeds of sale must be reinvested in Brazil, under the terms of the contract. The total to be reinvested includes \$1,310,000 of principal payments received in 1966. The use made of these funds is described on page 18.

The completion of the sale of the telephone utility is of course reflected in the 1965 and 1966 comparative consolidated Financial Statements appearing on pages 19 to 23 of this Report. In order to present the figures for the two years on a comparable basis, the 1965 figures have been rearranged by substituting the sale price for the assets and liabilities of the telephone companies in the balance sheet and by grouping together as one item in the income statement all the revenue and expense items constituting the net telephone loss.

REMITTANCES

Unpaid interest of prior years on debentures of the subsidiaries held by the Company, amounting to about \$13 million at December 31, 1965, was

reduced during 1966 to approximately \$8 million. Interest on these debentures was paid as it fell due in 1966, except in the case of two of the smaller subsidiaries. As the principal shareholder of São Paulo Light S.A., the Company also received its share of an 8% dividend paid by that subsidiary during the year.

During 1966 the two principal electric subsidiaries continued to service the Company's indebtedness to the International Bank for Reconstruction and Development under the terms of the Obligors Agreement, which was described in the 1965 Annual Report. The debt to the Bank at present amounts to \$59,237,000. The Obligors Agreement serves to relieve the parent of its obligation to service this debt, so long as principal and interest are paid to the Bank by the subsidiaries as they fall due. As the principal amount owing to the Bank is reduced through payments made by the subsidiaries, concurrent reductions are made in the principal amount of the latter's debentures owned by the Company.

The registration by the Central Bank of the Company's investments in its subsidiaries, which is required by Brazilian law, had not been completed up to the date of this Report. It is however anticipated that the registration, which will confirm the Company's entitlement to receive remittances from its subsidiaries, will be effected in the near future. Meantime remittances continue to be made by the subsidiaries on a provisional basis, against an undertaking to make adjustments later for any amounts remitted in excess of those justifiable under the eventual registration.

CONSOLIDATED INCOME

The table on page 13 summarizes the statements of consolidated income for 1966 and the two preceding years in the manner in which this has been done in preceding Annual Reports. The comparison between 1964 on the one hand and the two following years on the other is not however overly significant, in view of the substantial changes resulting from the introduction in 1965 of "service at cost" as the basis of setting electric rates.

ELECTRIC RATES

The major component of net income is the operating income of the subsidiary utility companies. Because of the lack of profitability of the gas



Downtown Rio de Janeiro—expansion of Rio Light's distribution system, financed in part by a loan from USAID.

service, the operating income appearing in the Statement of Consolidated Income is, for all practical purposes, operating income of the electric utilities. The rates which the electric subsidiaries are allowed to collect from their customers are therefore the principal variable bearing on the net income of the Company.

The "service at cost" system involves triennial rate revisions calculated to produce operating revenues sufficient to cover, over the succeeding

three-year period, the various components of "cost" as estimated for that period—viz. operating expenses and certain taxes, depreciation and reversion accruals, and remuneration of the recognized cruzeiro investment. Surcharges are added to the rates to meet interim increases in certain types of expenses (wages, fuel oil, purchased power, debt service, etc.) occurring during the three-year period. Through an extension of the surcharge concept, annual rate adjustments are also permitted to reflect

the impact on the depreciation, reversion and remuneration components of "cost of service" of the annual monetary corrections (or write-ups) of the cruzeiro cost of plant in service and related reserves. Such monetary corrections, as recorded annually on the books, reflect the depreciation in the value of the cruzeiro which occurred during the previous year.

Electric rates under the "service at cost" system were first established in March 1965. Except for surcharges to cover increases in costs of wages, fuel oil, purchased power and debt service, these rates remained in force through August 1966. The first interim adjustment to reflect monetary correction came into force in September 1966, when rates were increased on the average by approximately 18%. At the same time, at the direction of the conceding authority, a completely revised rate structure was adopted. An application for a second adjustment to reflect the monetary correction recorded early in the current year, measuring the depreciation of the cruzeiro which occurred in 1966, will be filed with the regulatory authorities shortly.

The work of the government commissions engaged in determining the remunerable investment of the electric subsidiaries has not yet been completed. Pending completion of this work, the value of the remunerable investment being used for rate-making is provisional. On the basis of the provisional rate base in use, combined operating revenues of all subsidiaries in 1965 and 1966 have been less than the revenues required to provide the maximum allowable remuneration.

DEPRECIATION AND REVERSION

Reference was made in the 1965 Annual Report to the substantial increase which occurred in that year in the amount of depreciation provided by the electric companies and to the provisions for reversion of fixed assets then recorded for the first time. In 1966 as in 1965 allowance for these provisions was made in the electric rates in force, and they were recorded as directed by the regulatory authorities. In both years the depreciation recorded was substantially in excess of the amount that would have been provided on the straight-line basis used in 1964 and prior years. These changes were designed primarily to provide additional cash to assist in financing the expansion of the distribution systems.

OTHER INCOME

Two items under "Other income" in the Statement of Consolidated Income merit special mention. Interest for 1966 on the outstanding balance owing on the sale of the telephone utility totalled \$5,551,751. This sum, received quarterly on the due dates, appears as "Interest under telephone sale agreement." The second item is "Investment income" which increased from \$2,760,886 in 1965 to \$5,203,552 in 1966. The increase of \$2,442,666 represents primarily income from the short-term investment of temporary cash balances. No income has been received as yet from the project investments in Brazil outside the utility field, described on page 18.

REVERSION INTEREST

"Income deductions" include a charge of \$921,127 representing 6% interest on reversion moneys recovered in rates and reinvested in plant. As explained in Note 3 to the Financial Statements, the regulations governing the electric industry require that this interest be paid out of allowable remuneration.

FOREIGN EXCHANGE ADJUSTMENTS

The "Foreign exchange adjustments" appearing under "Income deductions" in the Statement of Consolidated Income reflect primarily the write-down of cruzeiro working capital which was involved in its translation into United States dollars at the rates of Cr\$2,715, Cr\$2,220 and Cr\$1,850 to the dollar at December 31, 1966, 1965 and 1964 respectively.

CONSOLIDATED BALANCE SHEET

The book value of total shareholders' equity at December 31, 1966, as shown by the Consolidated Balance Sheet appearing on pages 20 and 21, is \$522,229,593. This sum represents investments in the following sectors:

Electric utilities	\$392,488,286
Gas utilities	13,903,292
Receivable under telephone sale contracts	90,143,215
Non-utility investments	25,694,800
	<u>\$522,229,593</u>



Suburban electric train made by Fabrica Nacional de Vagões S.A. in São Paulo. This company, in which a minority interest has been acquired (see page 18), manufactures rolling-stock, highway construction equipment, and parts for the automotive industry.

1966 ASSETS

It is apparent from the above that the Company's investment in its electric utilities is its principal asset. Constituting by far the largest part of the rate base, the value and condition of the plant of the electric subsidiaries is the main source of the Company's earning capacity.

The plant account is the principal component of consolidated fixed assets, which increased from \$790,710,926 (after elimination of telephone items) at December 31, 1965, to \$828,131,220 at December 31, 1966. The net increase in fixed assets represents 1966 capital expenditures of \$43,019,000 less retirements of plant and minor adjustments. This is the largest sum expended on capital account since

1959. Capital expenditures of the preceding three years have been:

1965	\$26,947,000
1964	14,746,000
1963	18,938,000

Nearly all the 1966 capital expenditures were incurred under the program, initiated in 1965, for expanding and improving the electric distribution systems in Rio de Janeiro and São Paulo. The total was divided between the various sectors as follows:

Electric generation and transmission	\$ 4,310,000
Electric distribution	38,075,000
Gas production and distribution	634,000
	<u>\$43,019,000</u>

OTHER INVESTMENTS

Equity investments in projects in Brazil outside the public utility field are included in "Other Investments" appearing in the "Investments and Other Assets" section of the 1966 Consolidated Balance Sheet. The following list indicates the principal investments made to date. The cruzeiro figures are the amounts invested or committed for investment. Based on the exchange rate of Cr\$2,200 to the dollar which prevailed throughout 1966 when most of these investments were made, their equivalent dollar value is approximately \$7 million.

<u>Nature of business</u>	<u>Extent of interest acquired</u>	<u>Investment (Cr\$ millions)</u>
Manufacture of railroad cars and accessories, truck chassis frames and wheels, excavators, etc.	25 %	4,700
Farming and related manufacture of canned and bottled vegetables, fruits, juices, etc.	28 %	3,500
Manufacture of wallboard, acoustical tiles, etc.	20 %	2,200
Textile manufacturing—spinning and weaving of towels, bed and table linen, etc.	26 %	1,866
Manufacture of brake cylinders, brake fluid solution, etc.	42 %	1,350
Armoured car transport of cash and securities	49 %	588

The second enterprise listed above operates farms and canning and bottling plants, with related research activities, in the states of Pernambuco, São Paulo and Minas Gerais. The Cr\$3,500 million investment in this company represents the reinvestment of the \$1,310,000 of 1966 telephone sale proceeds referred to on page 14.

In addition to the foregoing the Company, early in the current year, entered into an agreement with Celanese Corporation of New York establishing a joint venture for the production in Brazil of nylon yarn. The Company's 45% interest in this enterprise will involve the investment of \$2,700,000 during 1967 and the first half of 1968. This sum is the amount which the Company is committed to reinvest in Brazil out of the principal payments receivable during the same period under the telephone sale agreement.

WORKING CAPITAL

The components of the \$28,462,412 increase in working capital in 1966 are clearly set forth in the Statement of Source and Application of Funds appearing on page 22. The principal items have been commented upon separately herein.

LONG-TERM DEBT

Long-term debt is shown by the comparative Consolidated Balance Sheet to have decreased from \$74,942,830 (excluding the telephone companies) at December 31, 1965, to \$71,951,496 at December 31, 1966. Details of the total debt at the latter date are given in the statement appearing on page 23 (which also shows the annual maturities and/or sinking fund requirements over the five-year period from 1967 to 1971). The reduction of \$2,991,334 which occurred in 1966 represents:

Repayments and/or transfers to current liabilities (as long-term debt repayable within one year)	\$13,941,876
Less drawdowns under United States Agency for International Development loans negotiated in 1965	10,950,542
	<u>\$ 2,991,334</u>

Under Loan Agreements signed in October, 1965 the United States Agency for International Development agreed to lend \$40 million to the Company's two principal electric subsidiaries to assist in the financing of a three-year \$122 million expansion program to improve and extend their transmission and distribution systems in Rio de Janeiro and São Paulo. The Loan Agreements only came into force in June 1966, after the official requirements of the United States and Brazilian Governments had been complied with, and the drawdowns of \$10,950,542 shown above were all made in the second half of 1966. The loans are repayable over a fifteen-year period following three years of grace, and bear interest at the rate of 5½% per annum. They carry the guarantee of the Brazilian Government and, by agreement between all parties involved, the subsidiaries' obligation to service them may be discharged in cruzeiros.

The \$82 million balance of the cost of the three-year program is being provided by the electric subsidiaries from funds generated internally. To the end of 1966, \$52 million of the \$82 million total had been expended or committed.

BRAZILIAN LIGHT AND POWER COMPANY LIMITED
AND SUBSIDIARY COMPANIES

Statement of Consolidated Income

FOR THE YEAR ENDED DECEMBER 31, 1966
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED DECEMBER 31, 1965)

	1966	1965
OPERATING REVENUES:		
Electric	\$218,941,507	\$165,074,873
Gas	19,441,811	18,424,820
	<u>238,383,318</u>	<u>183,499,693</u>
OPERATING REVENUE DEDUCTIONS:		
Operating expenses	130,953,664	102,209,980
Provision for income taxes (including withholding taxes) (Note 4)	19,142,651	12,176,226
Provision for depreciation (Note 3)	32,414,319	27,120,841
Provision for reversion (Note 3)	15,978,444	13,895,586
	<u>198,489,078</u>	<u>155,402,633</u>
OPERATING INCOME	<u>39,894,240</u>	<u>28,097,060</u>
OTHER INCOME:		
Interest under telephone sale agreement	5,551,751	—
Investment income	5,203,552	2,760,886
Miscellaneous (net)	32,230	347,447
	<u>10,787,533</u>	<u>3,108,333</u>
NET INCOME BEFORE INCOME DEDUCTIONS	<u>50,681,773</u>	<u>31,205,393</u>
INCOME DEDUCTIONS:		
Interest on long-term debt	3,985,124	4,441,251
Interest charged to construction—credit	(986,036)	(39,937)
Reversion interest (Note 3)	921,127	—
Foreign exchange adjustments (Notes 1 and 2)	2,965,026	4,460,035
Equity of minority shareholders	4,532,888	1,919,855
Net loss of telephone utility (Note 5)	—	943,752
Provision for loss on abandonment of Santos gas service	2,884,788	—
	<u>14,302,917</u>	<u>11,724,956</u>
NET INCOME FOR YEAR	<u>\$ 36,378,856</u>	<u>\$ 19,480,437</u>
AVERAGE ORDINARY SHARES OUTSTANDING	17,304,233	17,294,671
NET INCOME PER ORDINARY SHARE	<u>\$2.10</u>	<u>\$1.13</u>

(See accompanying notes)

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1966
(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 1965)

<i>Assets</i>	DECEMBER 31	1966	1965
FIXED ASSETS:			
Utility plant in service	\$	809,871,080	\$ 782,486,727
Construction work in progress		15,775,740	6,000,295
Other physical property		2,484,399	2,223,903
Total property, plant and equipment at cost		828,131,219	790,710,925
Rights, franchises, contracts and goodwill		1	1
		<u>828,131,220</u>	<u>790,710,926</u>
INVESTMENTS AND OTHER ASSETS:			
Receivable on sale of telephone utility (Note 5)		83,600,288	90,143,215
Other investments at cost less amounts written off (Note 6)		17,001,724	6,200,027
Securities and cash on deposit with trustee under trust indentures		7,249,588	7,486,928
Sundry assets, including long-term receivables		8,738,409	7,757,351
Prepaid expenses and other deferred items		1,591,618	1,362,570
		<u>118,181,627</u>	<u>112,950,091</u>
CURRENT ASSETS: (Note 4)			
Cash		17,442,522	15,377,941
Short-term investments and deposit receipts		45,347,519	38,860,061
Government of Brazil obligations (Note 5)		22,848,921	13,628,404
Accounts receivable		22,726,635	20,491,541
Deposits in connection with exchange contracts		1,582,323	2,190,025
Customers' deposits lodged with government banks		303,825	295,178
Materials and supplies at average cost		21,560,424	10,386,281
		<u>131,812,169</u>	<u>101,229,431</u>
On behalf of the Board:			
J. GRANT GLASSCO	}	Directors	
E. G. BURTON			
(See accompanying notes)		<u>\$1,078,125,016</u>	<u>\$1,004,890,448</u>

BRAZILIAN LIGHT AND POWER COMPANY LIMITED
AND SUBSIDIARY COMPANIES

Liabilities

DECEMBER 31

1966

1965

SHAREHOLDERS' EQUITY:

Capital (Note 7)

Authorized—

3,934 6% cumulative convertible preference shares
of a par value of \$100 each

20,000,000 ordinary shares of no par value

Issued and Outstanding—

3,934 preference shares \$ 393,400 \$ 393,400

17,336,271 ordinary shares (1965—17,294,671 shares) 184,787,463 184,521,722

185,180,863 184,915,122

Earned surplus 337,048,730 315,150,058

522,229,593 500,065,180

MINORITY INTEREST IN SUBSIDIARY COMPANIES 34,405,211 30,835,373

CONTRIBUTIONS IN AID OF CONSTRUCTION 23,552,790 21,444,093

LONG-TERM DEBT (per attached statement) 71,951,496 74,942,830

ACCUMULATED PROVISIONS:

Depreciation (Note 3) 287,791,417 259,555,928

Amortization (Note 8) 34,389,005 34,389,005

Reversion (Note 3) 30,830,083 13,929,336

353,010,505 307,874,269

DEFERRED CREDITS 9,431,810 8,305,418

CURRENT LIABILITIES:

Accounts payable and accrued charges 26,646,640 26,607,486

Income and other taxes payable 19,702,195 19,276,931

Customers' deposits per contra 303,825 295,178

Long-term debt payable within one year 10,863,211 10,687,754

Interest and dividends due and accrued 6,027,740 4,555,936

63,543,611 61,423,285

(See accompanying notes) \$1,078,125,016 \$1,004,890,448

BRAZILIAN LIGHT AND POWER COMPANY LIMITED
AND SUBSIDIARY COMPANIES

Statement of Source and Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1966
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED DECEMBER 31, 1965)

	1966	1965
FUNDS PROVIDED		
Funds provided from operations:		
Net income for year	\$ 36,378,856	\$19,480,437
Provisions deducted in arriving at net income:		
Depreciation	32,414,319	27,120,841
Reversion	15,978,444	13,895,586
Equity of minority shareholders	4,532,888	1,919,855
	<u>89,304,507</u>	<u>62,416,719</u>
Current portion of sale price of telephone utility	6,542,927	6,172,572
Customers' contributions in aid of construction	2,108,697	2,384,317
Long-term borrowings	10,950,542	18,000
Increase (decrease) in deferred credits	1,126,392	(829,567)
Capital stock issued	265,741	—
Miscellaneous changes in various asset and liability accounts	1,451,720	(1,126,313)
	<u>111,750,526</u>	<u>69,035,728</u>
FUNDS USED		
Dividends—preference shares	21,887	21,880
—ordinary shares	14,458,297	7,230,448
Subsidiaries' dividends paid to minority shareholders	1,044,919	144,623
Capital expenditures	43,019,438	17,897,004
Repayment of long-term debt	13,941,876	11,412,006
Increase in other investments	10,801,697	—
Increase in working capital	28,462,412	32,329,767
	<u>\$111,750,526</u>	<u>\$69,035,728</u>

Statement of Consolidated Earned Surplus

FOR THE YEAR ENDED DECEMBER 31, 1966
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED DECEMBER 31, 1965)

	1966	1965
BALANCE AT BEGINNING OF YEAR (including legal reserves of \$5,319,906 in 1966 and \$4,464,522 in 1965)	\$315,150,058	\$321,737,375
NET INCOME FOR YEAR	36,378,856	19,480,437
	<u>351,528,914</u>	<u>341,217,812</u>
DEDUCT:		
Dividends: preference shares—Can. \$6.00 per share	21,887	21,880
ordinary shares —Can. \$0.90 per share	14,458,297	—
Can. \$0.45 per share	—	7,230,448
	<u>14,480,184</u>	<u>7,252,328</u>
Provision for loss on sale of telephone utility	—	18,815,426
	<u>14,480,184</u>	<u>26,067,754</u>
BALANCE AT END OF YEAR	<u>\$337,048,730</u>	<u>\$315,150,058</u>

(See accompanying notes)

BRAZILIAN LIGHT AND POWER COMPANY LIMITED
AND SUBSIDIARY COMPANIES

Statement of Long-Term Debt

AS AT DECEMBER 31, 1966

Amounts due to International Bank for Reconstruction and Development*—

4¼%, 4½%, 4⅞% and 6% loans, due semi-annually 1967 to 1978 inclusive, payable in U.S. funds	\$41,899,868
4¼%, 4½% and 6% loans, due semi-annually 1967 to 1978 inclusive, payable in Canadian funds—Can. \$15,046,203	14,515,241
4½% and 6% loans, due semi-annually 1967 to 1978 inclusive, payable in various funds—£292,071; Swiss Francs 1,211,407; Mexican Pesos 2,152,000; German Marks 1,223,940; French Francs 5,578,000	2,821,891
	<u>59,237,000</u>

*The amounts due to International Bank for Reconstruction and Development are evidenced by obligations of Rio Light S.A.—Serviços de Eletricidade or São Paulo Light S.A.—Serviços de Eletricidade under an Obligors Agreement dated June 9, 1965; by various Loan Agreements; and by the following Collateral Trust Bonds of Brazilian Light and Power Company Limited—

	U.S. Equivalent
Series A—payable in U.S. funds	\$41,899,868
Series B—payable in Canadian funds	14,515,241
Series C—payable in various currencies	2,821,891

Brazilian Light and Power Company Limited:

Collateral Trust Bonds—

4¾% bonds Series D, due 1970, payable in Canadian funds—Can. \$2,394,000	2,290,909
4½% bonds Series E, due 1971, payable in Canadian funds—Can. \$2,799,000	2,653,081
5% bonds Series F, due 1981, payable in £ sterling — £ 194,169	787,463

United States of America Alliance for Progress 5½% loans (secured by floating charges), payable in U.S. funds in equal semi-annual instalments from July 28, 1969 to July 28, 1984. While the Special Payments Procedure is in effect principal and interest are to be paid in cruzeiros at the applicable rate prevailing on the due date:

Rio Light S.A.—Serviços de Eletricidade	6,465,239
São Paulo Light S.A.—Serviços de Eletricidade	4,485,303

São Paulo Light S.A.—Serviços de Eletricidade:

5% perpetual consolidated debenture stock (secured by floating charge), redeemable annually to 1997—£695,461	3,384,577
Notes payable to supplier, due semi-annually 1967 to 1968 inclusive, payable in U.S. funds	3,498,870

Organização e Empreendimentos Gerais S.A.:

Loan payable in instalments in 1967, payable in Brazilian funds—Cr\$33.300.000	12,265
	<u>82,814,707</u>

Less amount payable within one year included under current liabilities	10,863,211
	<u>\$71,951,496</u>

Maturities and sinking fund requirements during the next five years are as follows:

1967—\$10,863,211; 1968—\$7,641,137; 1969—\$8,745,584; 1970—\$9,523,047; 1971—\$10,036,148.

(See accompanying notes)

BRAZILIAN LIGHT AND POWER COMPANY LIMITED

AND SUBSIDIARY COMPANIES

Notes to Financial Statements

1. TRANSLATION OF FOREIGN CURRENCIES

The Company's financial statements are expressed in terms of U.S. currency. Assets and liabilities and revenues and expenses in currencies other than U.S. dollars are translated into U.S. funds on the following bases:

Fixed assets and related accumulated provisions for depreciation, amortization and reversion	
Other investments	
The major portion of materials and supplies	
Capital stock	At the rates of exchange prevailing when transactions giving rise to such items occurred; transactions in cruzeiros since December 31, 1952 have been translated at free market rates.
Legal reserves	
Contributions in aid of construction	
Long-term debt	
The major portion of deferred credits	
Government of Brazil cruzeiro obligations subject to monetary correction	
	Brazilian currency items:
	December 31, 1966—at 2,715 cruzeiros to the U.S. dollar (See Note 2)
All other assets and liabilities (consisting principally of current assets and current liabilities)	December 31, 1965—at 2,220 cruzeiros to the U.S. dollar (the free market rate)
	Other items:
	At the rates of exchange prevailing at December 31.
Cruzeiro revenues (other than interest charged to construction) and cruzeiro expenses (other than depreciation, reversion and reversion interest)	At the composite earnings rate determined in the manner referred to below.
Interest charged to construction and reversion interest	At average free market rates.
Provisions for depreciation and reversion for the year	At the same rates as those used for the translation of the related assets.
Revenues and expenses other than those in cruzeiros	At average monthly rates of exchange for the currencies involved.
Dividends (including dividends to minority holders of shares of subsidiaries)	At the rates of exchange prevailing when the dividends were appropriated or provided for.

The composite earnings rate referred to above is the rate resulting from the translation into U.S. dollars of cruzeiro net income as follows:

	Cruzeiros to the U.S. dollar	
	1966	1965
(a) In respect of dollars purchased for remittance during the year, at the actual rates of exchange at which such dollars were purchased, the average of such rates being	2,209	1,900
(b) In respect of the balance of cruzeiro net income, at the average free market rate of exchange for the year, viz.	2,218	1,904
The resulting composite earnings rate was	2,215	1,902

2. CHANGES IN TRANSLATION OF FOREIGN CURRENCIES AT DECEMBER 31, 1966

On February 13, 1967 the free market exchange rate which had since November 16, 1965 been maintained at 2,220 cruzeiros to the U.S. dollar was reduced to 2,715 cruzeiros to the U.S. dollar and subsequent exchange transactions have been carried out at approximately that rate. In view of this reduction of approximately 23%, the rate of 2,220 cruzeiros to the U.S. dollar is considered inappropriate for the translation of "All other assets and liabilities" in Brazilian currency and these, consisting principally of current assets and liabilities, have been translated at 2,715 cruzeiros to the U.S. dollar. If the rate of 2,220 cruzeiros had been applied at December 31, 1966, working capital and sundry assets (net) would have been increased by \$2,716,490 and net income would have been increased by the same amount.

3. ELECTRIC TARIFFS, DEPRECIATION AND REVERSION OF FIXED ASSETS

New regulations enacted in November, 1964 under the Water Code implemented a regime of service at cost for electric utilities. A level of allowable earnings is determined by regulation and earnings in excess of this level are to be available only for the purpose of meeting deficiencies of earnings in subsequent years; conversely, deficiencies of earnings are recoverable in future tariffs. The same regulations provide that in the determination of tariffs and in computing allowable earnings depreciation may be deducted at rates substantially in excess of those previously used by the companies, which were based on the expected useful physical lives of the assets; the regulations also permit the inclusion in tariffs and the deduction in arriving at allowable earnings of a provision in respect of the ultimate reversion of electric properties to the concessionary authorities. Such provisions for depreciation and reversion and the allowed return on capital are based on the cost (or depreciated cost) of the investment after monetary correction to allow for the decline in the purchasing power of the cruzeiro.

The regime of service at cost became effective on January 1, 1965, and new electric tariffs at rates substantially higher than those previously in force were granted to the electric subsidiary companies on March 3, 1965. For the year ended December 31, 1965, these companies' earnings were below the allowable levels.

Operating revenues include approximately \$5,100,000 in 1966 representing the recovery of a portion of 1965 deficiencies but make no allowance for the future recovery in the years 1968 to 1970 of the balance of deficiencies in cruzeiro earnings. The dollar equivalent of such recoveries will depend on the extent of inflation and future changes in Brazilian exchange rates. The tariffs may also be adjusted in future to reflect as from January 1, 1965, the final determination by the regulating authority of the companies' remunerable investment. This determination has not as yet been completed.

Although the 1965 and 1966 provisions for depreciation, as directed by the regulatory authority, are substantially in excess of the amount that would have been provided on the basis (used in prior years) of expected useful physical lives, the economic usefulness of the electric properties to the companies is reduced by the full amount of the depreciation provision made in the accounts since

future tariffs and allowable earnings must be computed by reference to the depreciated value of the plant in service.

The regulations require that the reversion monies generated by the tariffs be deposited in special bank accounts and used either to pay the final indemnity upon reversion of the properties to the concessionary authorities or expended in approved expansion programs. With the permission of the regulatory authority the companies have withdrawn substantially all of the reversion monies to date and invested them in plant expansion.

Interest at 6% per annum on reversion monies invested in plant must also be deposited in the special reversion bank accounts subject to the same provisions for withdrawal for plant expansion. The charge of \$921,127 in the statement of consolidated income represents the interest for the year 1966.

4. EXCHANGE REGULATIONS AND REMITTANCES

Remittances from Brazil are subject to the exchange regulations of that country. Working capital includes balances in Brazil, the transfer of which is subject to such regulations. Interest and dividend payments from subsidiaries are subject to withholding taxes. Full provision has been made as at December 31, 1966 for withholding taxes on remittable interest due and accrued at that date and on 1966 subsidiary earnings to the extent that distribution of such earnings is anticipated by way of dividend payments in 1967.

5. SALE OF TELEPHONE UTILITY

On March 26, 1966 an agreement for the sale as at December 31, 1965 of the Company's telephone utility to an agency of the Federal Government of Brazil was executed. Under this agreement the Company sold its entire investment in its telephone subsidiary for the sum of \$96,315,787 payable over twenty years with interest at 6%, such payments being guaranteed by the Federal Government of Brazil. Of the purchase price \$10,000,000 with interest thereon is payable in ten equal quarterly instalments and \$86,315,787 with interest thereon is payable in eighty equal quarterly instalments, both series of instalments commencing simultaneously. The Company is obligated to reinvest in other enterprises in Brazil 75% of the \$86,315,787 over the twenty year period.

In the accompanying financial statements the 1965 figures have been restated to reflect this sale. The sale price realized has been substituted for the assets less liabilities of the telephone utility in the consolidated balance sheet and all items applicable to this utility have been reclassified and shown as one figure in the statement of consolidated income.

The amounts receivable within one year on the sale of the telephone utility (\$6,542,927 in 1966 and \$6,172,572 in 1965) are included under current assets.

6. OTHER INVESTMENTS

These investments include marketable securities of \$6,430,065 (1965—\$1,484,389) with a market value of \$6,632,113 (1965—\$1,315,625).

7. STOCK OPTIONS

During 1965 the Company reserved 500,000 of its unissued ordinary shares for the purpose of granting to

officers and employees of the Company and its subsidiaries options to purchase shares of the Company at the market price on the date each option is granted. Options expiring in 1975 were granted in 1965 on 258,000 ordinary shares at prices of Can. \$6.88 or \$7.00 per share, of which 82,000 shares were optioned to officers of the Company. During 1966 options on 41,600 shares were exercised at Can. \$6.88 per share. The remaining options outstanding are exercisable at any time within the option period.

8. PROVISION FOR AMORTIZATION

This provision, accumulated prior to 1953, may be required to cover the undepreciated cost of certain properties upon their reversion at varying dates up to 1990 under the terms of some of the concessions under which Rio Light S.A.—Serviços de Eletricidade and its gas subsidiary operate.

9. REMUNERATION OF DIRECTORS

Remuneration paid by the Company and its subsidiaries to the Company's directors, including directors holding salaried employment as officers, totalled \$659,956 in 1966. Remuneration paid to other senior officers totalled \$187,500.

10. EXPANSION PROGRAM

During 1965 the electric subsidiary companies inaugurated a three year program to expand their electric distribution and transmission facilities. Capital expenditures in this connection are expected to amount to \$122,000,000 of which \$40,000,000 is to be supplied from loans arranged with the Agency for International Development. To December 31, 1966, \$56,400,000 had been expended, of which \$10,950,542 was drawn down under the loans from the Agency for International Development.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto 1

CANADA

AUDITORS' REPORT

To the Shareholders of
Brazilian Light and Power Company Limited

We have examined the consolidated balance sheet of Brazilian Light and Power Company Limited and subsidiary companies as at December 31, 1966 and the statements of consolidated income, earned surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the financial position of the companies as at December 31, 1966 and the results of their operations and the source and application of funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 5, 1967.

Clarkson, Gordon & Co.
Chartered Accountants.



General view of Fontes power plant and penstocks, with the tail-race from the underground Nilo Peçanha plant. These plants, which have a combined capacity of 484,000 kilowatts, were both flooded during the cloudburst in January 1967. They are located about 50 miles north-west of Rio de Janeiro.

COMBINED STATISTICS OF THE OPERATING COMPANIES

	1966	1965	1964	1963	1962
ELECTRIC LIGHT AND POWER					
Kilowatt-hours sold (millions)					
Residential	2,862	2,642	2,449	2,302	2,173
Commercial	2,149	2,032	1,841	1,823	1,769
Industrial	6,131	5,313	5,326	5,374	5,482
Public utilities and others	1,655	1,654	1,625	1,684	1,669
Total	12,797	11,641	11,241	11,183	11,093
Capacity of generating plants (kw) .	2,146,823	2,146,823	2,146,823	2,147,550	2,100,800
Customers	2,403,078	2,285,025	2,182,275	2,076,710	1,975,331
Transmission lines (miles of circuit) .	2,534	2,504	2,495	2,489	2,460
Distribution lines (miles of wire) . .	110,184	105,021	101,615	98,623	91,678
GAS					
Gas sold (millions of cubic feet) . .	11,197	11,453	11,927	11,489	11,988
Customers	406,750	415,436	413,301	406,989	403,633
Mains (miles)	1,453	1,451	1,450	1,449	1,447
EMPLOYEES					
Number of employees in Brazil . . .	25,066*	41,833	40,293	39,916**	45,017

*Excluding employees of the telephone utility.

**Excluding employees of the tramway service.

THE ELECTRIC SYSTEMS






AR29

Applications were filed early this year for increased electric rates. A new rate structure was established and became effective at the end of August to compensate for cost increases and to encourage a better use of energy. A reduction in federal imposts added to electric billings took effect at the same date, with the result that most consumers will experience but little variation in their monthly electric bills.

The Company's program to expand electric distribution facilities is gaining momentum, expenditures and commitments thereunder totalling \$30 million in the first half of 1966 compared with \$8 million in the comparable period of 1965.

The Brazilian economy continued to strengthen in the first half of 1966. Exports at \$807 million and imports at \$641 million were each about 25% higher than in the first half of 1965, and exchange reserves continued to improve. The cost of living rose by 24.2% compared with an increase of 29.3% in the same period of 1965.



President

25 King Street West
Toronto, Canada
September 7, 1966



BRAZILIAN
LIGHT
AND
POWER
COMPANY
LIMITED

INTERIM REPORT
to the Shareholders

six months ended June 30, 1966

BRAZILIAN LIGHT AND POWER COMPANY LIMITED

and Subsidiary Companies

TO THE SHAREHOLDERS:

STATEMENT OF CONSOLIDATED INCOME*

for the six months ended June 30, 1966

	First Six Months 1966	First Six Months 1965
	(U.S. dollars—thousands)	
Operating revenues		
Electric	\$ 93,082	\$75,732
Gas	8,858	8,904
	<u>101,940</u>	<u>84,636</u>
Operating revenue deductions		
Operating expenses	59,528	46,979
Provision for income taxes (including remittance taxes)	5,299	6,100
Provisions for depreciation and reversion	20,127	18,086
Net operating loss—telephone utility	—	1,278
	<u>84,954</u>	<u>72,443</u>
Operating income	16,986	12,193
Other income		
Interest on obligations of Brazilian government	2,837	—
From investments	1,539	1,361
	<u>4,376</u>	<u>1,361</u>
Net income before interest and other financial charges	<u>21,362</u>	<u>13,554</u>
Income deductions		
Interest on long-term debt	1,991	2,280
Provision for foreign exchange losses	2,439	3,337
Equity of minority shareholders	2,194	561
	<u>6,624</u>	<u>6,178</u>
Net income for period	<u>\$ 14,738</u>	<u>\$ 7,376</u>
Ordinary shares outstanding at end of period	17,319,171	17,294,671
Net income per ordinary share	<u>\$0.85</u>	<u>\$0.43</u>

*Subject to year-end audit and adjustments

Estimated net income for the first six months of 1966 amounted to (U.S.) \$14,738,000, or 85c per share. The improvement over the results of the comparable period in 1965 arises principally from betterment in electric rates and the disposal of our telephone utility. In the first half of 1965, electric revenues were adversely affected by obsolete and inadequate rates, which only in March 1965 were placed on a more realistic basis. These new rates continued in force throughout the first half of 1966. Telephone operations resulted in a net operating loss of \$1,278,000 in the first half of 1965, while in the first half of 1966 income benefitted to the extent of \$2,837,000 from earnings on the proceeds of the sale of the telephone company.

For some years, the continuing inflation in Brazil has given rise to exchange losses which have reduced net dollar income. The major element of such losses has been the shrinkage in dollar value of the net current assets held in cruzeiros. In the appended statement, provision has been made for the estimated loss in value of working capital in Brazil. In all other respects, this statement is based on the application of the conversion formula described in recent annual reports.

Kilowatt hour sales of the electric subsidiaries in the first six months were 7.5% above the 1965 figures. This upward trend is continuing. Sales of manufactured gas showed little change.